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C O N F I D E N T I A L SECTION 01 OF 03 ADDIS ABABA 000728

SIPDIS

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TAGS: [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [ET](#)
SUBJECT: MELES SUMMONS G-20 AMBASSADORS FOR PRE-SUMMIT
BRIEFING

REF: A. 2008 ADDIS 2254 (NOTAL)
[1](#)B. ADDIS 557

Classified By: Ambassador Donald Yamamoto for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (SBU) Ethiopian Prime Minister Meles Zenawi summoned most G-20 Ambassadors on March 26 to present a briefing of the position he will take in London on April 2 where he will represent Africa at the Summit. The meeting occurred just hours after Meles convened a separate, but supposedly similar, meeting with the Chinese, Indian, and Brazilian Ambassadors. Arguing that his comments reflected the consensus views of the "Special Committee of Ten" -- composed of five African finance ministers and five African central bank governors who have held a series of pre-G-20 consultations over the past few months -- Meles called 1) for a revitalization of the Doha Round of trade talks to resurrect the "collapse of global trade," 2) for G-8 countries to meet their pledge made at Glen Eagles to contribute 0.7% of GDP toward foreign assistance, and 3) for developed countries to recapitalize the international financial institutions (IFIs) and reform them to provide quick and easy money to "jump start" African economies including the IMF selling gold reserves to increase funds. This would allow for special drawing rights (SDR) for developing countries. The U.S. Ambassador stood alone in raising two concerns on Africa's call for more liberal non-concession loans and de-emphasis of structural reform and policy reform in favor of more performance based criteria for loans. End Summary.

REVITALIZE TRADE AND EXPAND BILATERAL AID

[1](#)2. (SBU) In a late-called meeting with G-20 Ambassadors less China, India, and Brazil, Prime Minister Meles highlighted the consultations held over recent months between the "Special Committee of Ten" which finalized its deliberations in early March on the margins of the IMF meeting in Tanzania. Meles presented a "consensus" perspective from the Committee, which he clearly shared and intends to present in his role in representing Africa at the April 2 G-20 summit in London. Arguing that "trade has collapsed," specifically due to the collapse of global commodity prices for primary African exports, Meles stressed the need to improve the global trade environment. Without giving details, Meles emphasized that the "revitalization" of the Doha Round of

trade talks is "critical" to revitalizing trade and, through it, African economies. Similarly, Meles stressed the African consensus for G-8 countries to meet their pledges made at Glen Eagles to allocate 0.7% of each country's GDP to foreign assistance for least developed countries.

¶3. (SBU) Specifically, Meles argued that international aid should be focused on 1) supporting "safety net" programs throughout Africa to help people prevent and mitigate the impacts of drought and economic downturns, 2) balance of payments support to help African countries cope with their diminished terms of trade, and 3) investment in infrastructure.

RECAPITALIZE THE IFIs TO JUMP START ECONOMIES

¶4. (SBU) The bulk of Meles' arguments to the assembled envoys focused around measures that the developed world and Bretton Woods institutions can take to jump start African economies through recapitalization, expediting disbursements, availing new options to developing countries, and granting African countries greater representation on IFI boards of directors. Also reflecting a consensus view of the Special Committee of Ten, Meles argued for the International Monetary Fund (IMF) to sell off U.S. \$15 billion in gold reserves to expand its pool of available capital. To complement this, Meles urged the G-8 countries to recapitalize IMF coffers through SDR 30 billion in bilateral contributions. To this end, Meles claimed that Japan has already committed U.S. \$100 million.

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¶5. (SBU) Once recapitalized, the IFIs should take program processing measures to facilitate and expedite disbursements in order for African countries to meet safety-net targets, attain balance of payments support, and maintain critical infrastructure development goals. In addition to expanding the pool of concessional development assistance, Meles called for the World Bank to greatly expand access for developing countries to non-concessional loans through the Bank's hard window.

¶6. (SBU) The Prime Minister also reflected an African consensus view calling for the World Bank to establish a "vulnerability trust fund," similar to the U.S. \$275 million that Ethiopia received in December through the Bank's expedited Global Food Crisis Response Facility (Ref A). Meles's comments came on the heels of a recent Chinese government announcement to provide a pool of up to U.S. \$5 billion of investment capital for African development needs. The Ethiopian Government (GoE) has routinely referenced the growing level of investment and support from China and India as a notice to the West that we are ceding ground to the East and losing potentially fruitful investment opportunities.

¶7. (SBU) Finally, Meles called for two structural adjustments that IFIs should take to better empower African countries and jump start their economies. First, he echoed the African call to expand sub-Saharan Africa's representation on the boards of executive directors of both the World Bank and IMF to five seats each. Second, Meles made a strong push for the IFIs to shift away from policy conditionalities which dictate how recipient countries achieve specific desired results to the establishment of performance standards in which the IFIs and recipients agree to end results that each government's choice of policy options will strive to achieve. In response to queries as to what such performance standards might include, Meles claimed that the G-8 has previously agreed to a clear set of performance standards, but provided no specific examples of what these may be. Acknowledging that this shift may be contentious among developed and donor countries, Meles called for a slow phasing in of this new approach with IFIs initially offering new funds with 50 percent contingent on policy reforms, while the other 50 percent would be tied to performance standards.

SUMMARY ARGUMENTS

¶18. (SBU) Meles emphasized that his position was not for an "overhaul" of IFI operations, but "adjustments" and he called for G-20 countries to "experiment" with various options to revitalize trade and aid while jump starting global economic growth. Meles argued that the Western world's debt sustainability framework does not reflect the true credit risk dynamics that developing countries are facing. Specifically, Meles acknowledged that African countries are already borrowing from countries like India and China, but claimed that that borrowing should be from the IFIs. The steps called for above, therefore, would create a conducive international environment to encourage such a shift among borrowing countries. Meles was emphatic that investments in Africa often yield higher returns than similar investments elsewhere, and therefore called for donor countries to both make more assistance available on an absolute level, as well as to assess project viability and avail non-concessional funds through IFIs such as through the Bank's hard window.

COMMENT

¶19. (C) Meles' comments may well reflect a consensus view from African states. At the same time, however, we assess that Meles is cannily leveraging his presence at the G-20 summit -- which was granted because Ethiopia is the current head of NEPAD -- to ride the effects of the global crisis that many other African countries are legitimately facing in order to secure more, but less conditioned, aid flows to Ethiopia to counter its own economic crisis which is largely independent of the global crisis (Ref. B). Ethiopia's tightly controlled economic policies have resulted in large imbalances in the country's macroeconomic fundamentals -- with the continent's second highest inflation rate after Zimbabwe, a sustained

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balance of payments crisis, hugely negative real interest rates, four weeks of import equivalent in foreign exchange reserves, and a government and ruling party-led strangle hold on many key sectors of the economy.

¶10. (C) As Prime Minister Meles's chief economic advisor told a visiting delegation earlier this month (septel), Ethiopia's perspective is that "the IFIs do not know what are the right economic policies, and Ethiopia has grown robustly over the past 18 years, so the IFIs should just give us more and easier access to funds so we can overcome the current bumps."

Unfortunately, Ethiopia's mythic growth and economic figures do not hide the real challenges that this economy is facing, and left to its own devices, the Ethiopian Government has shown minimal internal incentives to make the reforms desperately needed to return the economy to sound fundamentals. While the arguments that the Special Committee of Ten, through Meles, has called for may significantly help those African countries suffering from the global crisis but which have strong and conducive policy environments, Ethiopia's crisis is largely endogenously driven and the steps advocated for above will only provide a band-aid over the short-to-medium term symptoms. It is also interesting to note the shift in strategy by the GoE in making the case for increased support through the IFIs as a way to limit the influence of China and India. While the U.S. can certainly play a role in jump starting African economies, it is clearly not appropriate for us to apply this same response to every economy.

¶11. (SBU) Finally, the U.S. Ambassador stood alone in raising potential debate and concerns over Africa's call for a more liberal non-concession loan arrangements and a de-emphasis on structural and policy reforms in favor of more performance based indicators. These two issues will be open to further debate at the G-20. As the Ambassador left the room, the

Prime Minister

grabbed the Ambassador's arm and said, "Africa is looking to the U.S., particularly, and especially the new American President, to help Africa overcome the global economic crisis." End Comment.

YAMAMOTO